



Date: July 8, 2014

To: Thomas J. Bonfield, City Manager
Through: Keith Chadwell, Deputy City Manager
From: Reginald J. Johnson, Director
Department of Community Development
Subject: Presentation – by Workforce Homestead, Inc. on behalf of
Vermilion, a 60 unit Affordable Rental Townhome Community

Executive Summary

In response to the City of Durham's application for funding of CDBG, HOME, ESG and General Funds for FY 2014-2015, Workforce Homestead, Inc. submitted an application for a subsidized loan using the Dedicated Funding Source in the amount of \$193,506.00 to provide gap financing for a 60 unit affordable townhome style community. These units will be constructed on Cook Road at Martin Luther King Parkway, comprised of two and three bedroom units and will be available to individuals and families whose income does not exceed 30%, 50% and 60% of the area median income.

Recommendation

The Department of Community Development recommends that City Council receive a presentation from Workforce Homestead, Inc. regarding the requested gap funding for the Vermilion affordable housing project and its inclusion in the Department's funding plan.

Background

The Annual Action Plan presented to City Council on May 5, 2014, included a recommendation by the DCD to fund the Vermilion project with a \$193,506.00 loan using the Dedicated Funding Source. This funding was requested by Workforce Homestead, Inc. as a part of the competitive application process for CDBG, HOME, ESG and Dedicated Housing Funds. If approved by Council, the funding would leverage \$7,696,285.00 in other investment.

The project developer applied for and received an award of 2013 Low Income Housing Tax Credits. At the time of the tax credit reservation, the developer anticipated obtaining a first mortgage loan in the amount of \$2,412,000.00 from the Community Investment Corporation of the Carolinas (CICCAR). However, the appraisal prepared for CICCAR supported only a \$2,160,000.00 first mortgage loan amount. CICCAR's lending guidelines limit their first mortgage loans for such projects to 75% of the restricted income appraised value. Because the maximum loan amount is \$252,000.00 lower than anticipated, the developer is requesting assistance from the City to help close that gap.

Issues/Analysis

The developer is maximizing all other available funding sources. In addition to the first mortgage loan, financing sources include an \$800,000.00 Rental Production Program (RPP) loan from NCHFA, State Tax Credits of \$694,174.00, LIHTC equity in the amount of \$3,892,111.00 and a deferred developer's fee of \$150,000.00. The proposed City loan would be at 2% interest as would the RPP loan. Both loans would be subject to cash flow payments on a proportionate basis.

The project is located outside an area of low income or minority concentration and is therefore in compliance with the City's subsidized housing location policy. It is well located in terms of proximity to employment opportunities and commercial facilities. The location is served by DATA Route 5K and a sheltered bus stop is nearby.

Six units will serve special needs persons with disabilities.

Alternatives

If the funding is not approved by Council, it will be necessary to increase the amount of the developer's fee that is deferred. Because a LIHTC reservation has already been made, it is not possible to actually reduce the developer's fee without adversely impacting the overall financial structure of the project. Issues associated with a large deferred developer's fee will be discussed by the developer during his presentation.

Financial Impact

Not applicable with this request to receive a presentation, but should the item move forward for Council approval, the impact will be noted on a future Agenda Memo.

SDBE Summary

Not applicable

Attachment: PowerPoint presentation